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At Connecticut Voices for Children



Testimony In Support of Raised H.B. 5545 *An Act Concerning a Comprehensive Study of the State's Tax Structure*

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Senator Fonfara, Representative Widlitz, Senator Frantz, Representative Williams, and distinguished members of the Committee:

My name is Matt Santacroce. I am a Policy Analyst at Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families. **I am here today to testify in support of H.B. 5545, *An Act Concerning a Comprehensive Study of the State's Tax Structure*.** Briefly, this bill would require this Committee to appoint a panel of experts charged with conducting a thorough study of the state's tax system, with a particular focus on increasing the system's simplicity, fairness, economic competitiveness, and affordability.

We applaud this important step towards broadening our understanding of the impact of the array of Connecticut taxes on families and businesses. It is crucial that this panel approach the task with a clear focus on fairness, equity, and investment in Connecticut's families and children.

In particular, we would emphasize the importance of Section 1(d)(4) of the bill as currently drafted, which calls for an examination of the personal income tax rate structure's impact on fairness and equity, as well as an evaluation of the efficacy and utility of existing credits against the tax – and, importantly, whether other credits should be allowed. We would take this opportunity to highlight two credits against the personal income tax – one which currently exists, and one which, if created, would mark a substantial improvement in tax fairness and equity for families with kids.

First, the state earned income tax credit has – as expected – provided a powerful counter-balance to the state's overall regressive tax system, and continues to be particularly effective at improving tax fairness for working families with children across our state. Last year, more than 186,000 households in every city and town in Connecticut benefitted from this credit – receiving an average credit amount of about \$600 on their state returns. These families all worked over the course of the year, and nearly all of them had children. **The EITC, which helps these working families make ends meet, should be viewed favorably by the proposed panel.**

But the EITC alone is simply not enough; it is critical that the panel also explore other avenues to improve tax fairness for families with children in Connecticut. **One such improvement would be the creation of a state**

child tax credit, modeled after New York's Empire State Child Credit and fully refundable for those who qualify for the existing federal child tax credit.

Among the 43 states with a personal income tax, Connecticut and Pennsylvania are the only ones that do not allow residents to claim an exemption for dependent children who can be claimed on federal tax returns filed by their residents. This exemption allows parents and guardians to deduct from their reported income a certain amount for each dependent claimed, reducing the amount of taxes paid by families raising children.

Although nearly every other state that has enacted an income tax has also enacted some form of tax exemption, deduction or credit to offset the costs of raising children, Connecticut has not. As a result, a two-parent family with three children pays virtually the same amount in state income tax as a couple earning the same amount with no children, even though households with children spend far more on food, clothing, health care and other necessities and have far less disposable income. We have proposed a new state child tax credit that would remove the existing child penalty, give an immediate boost to more than 400,000 low- and moderate-income families with children in Connecticut, and improve fairness in our tax code.

Our failure to provide a child tax credit amounts to a child tax penalty: surely not the right policy for a state with an aging population that needs to ensure a vibrant and skilled workforce for tomorrow. **We urge the panel to consider remedying this existing child penalty by creating a refundable state child tax credit modeled after New York State's.**

Finally, we applaud the proposed review of the local property tax included in Section 1(d)(5). Easily the most regressive feature of Connecticut's combined state and local tax system, reforming the local property tax regime is a necessary component of any proposed comprehensive reordering of Connecticut's tax system – as currently structured, property taxes are borne most heavily by low-income families in our state's under-resourced urban communities. Remedying the inequities that characterize the property tax as currently structured would improve fairness throughout the state tax system, and should be a top priority of the proposed panel's review process.

The proposed review is an important building block for informed debate, and will help state lawmakers, advocates, businesses, and families better understand the impact of proposed tax changes. We look forward to helping guide the work of the proposed panel.

Thank you for the opportunity to testify before you today. I look forward to your questions.